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SIPDIS

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SUBJECT: POOR KYRGYZ OBLAST HIT HARD BY GROWING INFLATION

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¶1. (SBU) Summary: On October 24) 26, Ambassador Yovanovitch visited Naryn Oblast. Everyone she met, from local government representatives in Naryn City to farmers in remote villages, reported that the economic situation in the oblast is dire. The region, already poor, has been especially hard hit by growing inflation. End Summary.

Is this the "real Kyrgyzstan?"

¶2. (SBU) On October 24) 26 Ambassador Yovanovitch visited Naryn Oblast, including the Oblast capital, Naryn City, which lies 185 miles southeast of Bishkek. Naryn Oblast is mostly covered by treeless rocks and mountains and possesses a rugged beauty that resembles the American West. The Oblast lacks industry and the primary product of the region is meat and animal byproducts. The climate of Naryn Oblast is harsh) hot in the summertime and bitterly cold in the wintertime. The Deputy Governor reports that there are no transplants to Naryn) only natives of Naryn can survive the harsh, unwelcoming climate and long winters. The Deputy Governor characterizes natives of Naryn as "gorniye i gordiye," or "mountainous and proud."

¶3. (SBU) Perhaps because of the isolation and desolation, the oblast is composed almost entirely of ethnic Kyrgyz; official statistics put the ethnic Kyrgyz population of Naryn Oblast at ninety-eight percent. Unlike in Bishkek, Kyrgyz is the primary language, and one can easily get by with no Russian. Naryn residents take pride in being the "real Kyrgyz."

Globalization: A Near Miss in Naryn

14. (SBU) With the exception of meat and a few crops (potatoes, wheat, carrots, and cabbage), there is no local production in Naryn Oblast. Nearly all clothing, household supplies, and food are imported to the region from other regions of Kyrgyzstan or from abroad. Despite Naryn's strategic location on the border with China and despite heavy truck traffic by Chinese trucks carrying goods to Bishkek, most goods are more expensive in Naryn than in the capital. This is because the central government mandates all goods must first go to Bishkek, where they are customs processed, before being released for sale and shipped back to Naryn Oblast. Locals, such as the Mayor of Naryn and the Deputy Governor of Naryn Oblast, complain that they get no benefit from trade with China, and to the contrary, they bear the burden of repairing roads which sustain considerable damage from the 80-ton Chinese trucks.

Bread Crisis: Buying Wheat by the Ton

15. (SBU) Naryn residents resoundingly report that the so-called "bread crisis" has hit their oblast, already poor, very hard. Although some farmers in Naryn Oblast, namely those who raise wheat, actually made a profit this year for the first time ever, the wheat produced in the region is still insufficient to meet the needs of the population. In fact, the region received 200 tons of wheat from the central government to cover the emergency needs of the region's poorest residents. On October 25th, President Bakiyev's office reported that the Akim of Naryn Rayon, was fired for attempting to embezzle 30 tons of wheat.

16. (SBU) A Peace Corps Volunteer reported that when the price of bread hit 10 soms (almost 30 cents), his host-family

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literally bought a ton of raw wheat, which they plan to mill into flour to bake homemade bread. He added that they were among of the lucky ones who could actually afford to buy wheat in bulk because his family has benefited from the emerging business of community-based tourism. Other Naryn residents confirm that store-bought bread is a luxury few can afford.

Baby Boom Despite Tough Times

17. (SBU) Naryn authorities, NGO's, and political party representatives cite internal migration, due to lack of economic opportunity in the region, as a problem. There is not as much external migration to Russia or Kazakhstan as there is from other regions of Kyrgyzstan, but sources report that nearly every family has a relative in Bishkek who sends remittances. Despite internal migration to the capital, the population of Naryn Oblast continues to grow due to a relatively high birthrate (there are about 6,000 births per year, in an oblast with a population of 35,000 adults). One journalist explained that women keep having babies despite hard economic times because of family pressure and Kyrgyz tradition. She said, "Even a hungry mother will feel joy looking at her newborn baby." However, statistics indicate that some young families are exactly that) hungry - and having a hard time surviving in an economy with 80 percent unemployment and where the average family income is 1,500 som (approximately \$42) per month.

18. (SBU) The Ambassador witnessed firsthand the baby boom in Naryn when she visited the Naryn Oblast Hospital. There, she saw the results of a USAID-funded program to reduce infant and mother postnatal mortality and morbidity. In just six months, and through small changes, such as encouraging women to move freely during labor, allowing husbands and partners to be present during birth, using new techniques to deliver the placenta, and applying antibiotic ointment to a newborn baby's eyes, the USAID-funded project has cut infant

mortality at Naryn Oblast Hospital by half and reduced mothers' complications.

Not All is Lost

19. (SBU) Despite the dire economic situation of Naryn Oblast, there are several opportunities for development and, possibly, foreign investment. The Aga Khan Development Network is constructing a new branch of the University of Central Asia and is doing humanitarian work in Naryn. There is a coal mine in Naryn Oblast, and local authorities point to other natural resources, such as aluminum, gold, and bronze. The Deputy Governor estimates that the village of Jaltyn Jol has 10 billion tons of iron ore, which would make it the largest deposit of iron ore in the world. The extraction of Naryn's iron ore deposits is complicated by lack of capital and lack of rail transportation to the region. During Soviet times, there was a large horse farm in Naryn Oblast, and with the average price for a horse at nearly \$1,000, there is potential in horse farming. Likewise, alpine pastures could be exploited to raise livestock, including beef, sheep, and yak. There was Chinese investment in tanneries, but those ventures failed. Local authorities complain that most meat is processed outside of the region and suggest that one potential business could be meat-processing and meat-packing.

110. (SBU) One USAID-funded project that is helping encourage the development of agriculture in Naryn Oblast is the Land Reform and Market Development Project, which works with local government (Ayil Okmoty) to implement auctions for the use of public land, making the leasing of public land transparent

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and providing a much-needed source of revenue for the local government. The Ambassador's visit to one such site in the village of Kazan Kuigan provoked lively discussions from village residents, who were eager to explain the program's successes. The Ambassador also attended a public hearing on land distribution, which had a standing-room-only audience.

111. (SBU) The Ambassador also visited an EBRD-sponsored bank that issues microcredit loans to small businesses. In five months, the bank had already issued 107 loans which averaged \$1500. The Ambassador spoke with three entrepreneurs who had recently received loans and visited a small business that benefited from a microcredit loan. She met with journalists, NGO representatives, political party representatives, and the Naryn Mullah (septel). She dedicated a mentor program for women, the third such program the Embassy has begun in Kyrgyzstan. She was met with enthusiasm as the keynote speaker at a women's conference, which was organized by Peace Corps volunteers and covered such topics as women's leadership, women's health, women in Islam, and balancing career versus family.

112. (SBU) Comment: The economic situation, combined with a general feeling of political disenfranchisement (septel), has given residents of Naryn much cause for pessimism. However, taking to heart the Deputy Governor's characterization of Naryn residents as hardy and stalwart, there is hope for Naryn. Thanks to remittances from abroad and maybe in part thanks to the character of Naryn residents, Naryn is holding on, albeit under dire circumstances.

YOVANOVITCH